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ABSTRACT

This three-part curriculum for entrepreneurship education is primarily for postsecondary level, including four-year colleges and adult education, but it can be adapted for special groups or vocational teacher education. The emphasis of the three instructional units in Part I is understanding business. Unit C focuses on business failure and success. It examines such topics as distinguishing the successful entrepreneur from the unsuccessful, guidelines to promote success, preparation of a potential entrepreneur, main causes for business failure and success, and the importance of preparation by the entrepreneur. Material is organized into three levels of learning which progress from simple to complex concepts: Exposure, Exploration, and Preparation/Adaptation. Each level contains preassessment; teaching/learning objectives; substantive information (questions in margins guide the students' reading); activities, including a postassessment; and a self-evaluation. Definitions of important terms are found at the beginning of the unit; a bibliography and listing of sources for further information are appended. The four-page instructor's guide contains the teaching/learning objectives, teaching/learning delivery suggestions, and pre/postassessment suggested responses. (YLB)

ED 169411

Research and Development Series No. 194 A-3

PACE

A PROGRAM FOR ACQUIRING COMPETENCE IN ENTREPRENEURSHIP

PART I: Getting Ready to Become an Entrepreneur
UNIT C: How to Succeed and How to Fail

The National Center for Research in Vocational Education
The Ohio State University
Columbus, Ohio 43210

1980

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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PART I: GETTING READY TO BECOME AN ENTREPRENEUR

UNIT C: HOW TO SUCCEED AND HOW TO FAIL

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FOREWORD

Traditionally vocational education has been geared primarily to preparing students for employment--to preparing employees. Yet there is another career path available; students can learn how to set up and manage their own businesses. They can become entrepreneurs.

Vocational education, by its very nature, is well suited to developing entrepreneurs. It is important that entrepreneurship education be developed and incorporated as a distinct but integral part of all vocational education program areas. A Program for Acquiring Competence in Entrepreneurship (PACE) represents a way to initiate further action in this direction.

The strength behind these instructional units is the interest and involvement of vocational educators and successful entrepreneurs in the state of Ohio and across the nation. Special recognition is extended to the project staff: Lorraine T. Furtado, Project Director and Lee Kopp, Program Associate. Appreciation is also expressed to the many who reviewed and revised the drafts of the units: Ferman Moody, Hannah Eisner, and Sandra Gurvis. We owe a special thanks to those consultants who contributed to the content of this publication: Carol Lee Bodeen, Louis G. Gross, Douglass Guikema, Peter G. Haines, Philip S. Manthey, Charles S. McDowell, Mary E. McKnight, Steven R. Miller, Barbara S. Riley, Barbara A. Rupp, Ruth Ann Snyder, Robert L. Suttle, Florence M. Wellman and Roy H. Young.

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The National Center for
Research in Vocational Education

HOW TO USE PACE

A Program for Acquiring Competence in Entrepreneurship (PACE) is a curriculum responsive to the need for instruction in entrepreneurship. It is primarily for postsecondary level, including four year colleges and adult education, but it can also be adapted for special groups. PACE is divided into three parts (1) Getting Ready to Become an Entrepreneur, (2) Becoming an Entrepreneur (establishing a business), and (3) Being an Entrepreneur (operating a business).

Each of the three parts has a set of instructional units which relate to that topic. Within these units, the material is organized into three levels of learning: Exposure, Exploration, and Preparation/Adaptation. These levels of learning progress from simple to complex concepts.

The levels of learning will enable you to use the PACE materials to suit your individual needs. You may find it best to work with the exposure level of one unit and the exploration level of another. Or, you may choose to pursue one level throughout the entire series. You might also want to work through two or more levels in one unit before going on to the next unit.

Before beginning a unit, discuss with your instructor what level or levels of learning in that unit are most appropriate to your goals and abilities. Read the unit overview and look through the pre/post-assessments for the three levels to help you in your choice. Also check the list of definitions you might need to look up or research for that level.

When you are ready to start, turn to the level you have chosen, take the preassessment and identify those items which you feel need special attention in the unit. Also look at the learning objectives; they will tell you what you should be able to do by the time you finish that level of learning.

As you read, you will notice questions in the margins alongside the substantive content portion of each level. Use these questions to guide your reading.

At the end of each level of learning are activities which help you become involved with the content presented in the unit. You and your instructor can decide on how many activities you should do; you may want to do several or you many need to do all.

Then, evaluate yourself. Is there any material that you need to review before you take the postassessment? The difference in your answers on the pre/postassessments should show you how much you have grown in your knowledge of entrepreneurship.

When you and your instructor feel that you have successfully completed that level, you are ready to begin another level of learning, either in the same unit or in another.

OVERVIEW OF THE UNIT

Why do some businesses succeed and others fail? Each year thousands of new businesses start and within three years, over one-third fail. Within five years, over 50% are out of business. Many are discontinued due to various factors including retirement, poor health, desire to relocate, changing labor or economic conditions, and family problems. Unfortunately the inability of the entrepreneur to "make a go" of the business remains a major cause of business failures.

What distinguishes the successful entrepreneur from the unsuccessful? Are there certain guidelines one must follow to promote success? What preparation should a potential entrepreneur have? This unit will help you to examine these questions so that you can understand more fully the main causes for business failure and success and the importance of preparation by the entrepreneur.

DEFINITIONS TO KNOW BEFORE YOU BEGIN

As you read through a level, you might find some unfamiliar words. Listed below are several business terms used in each level. Knowing these before you begin might help you to better understand that level.

EXPOSURE

balance sheet

profit and loss statement

line of credit

cash flow

working capital

liabilities

EXPLORATION

return on investment

fixed assets

liquidated

PREPARATION/ADAPTATION

fixed costs

variable costs

operating costs

cash flow

PACE

PATH OF STUDY

PART I-- GETTING READY TO BECOME AN ENTREPRENEUR

Unit I A

Unit I B

Unit I C-- How to Succeed and How to Fail

PART II-- BECOMING AN ENTREPRENEUR

Unit II A

Unit II B

Unit II C

Unit II D

Unit II E

Unit II F

Unit II G

PART III -- BEING AN ENTREPRENEUR

Unit III A

Unit III B

Unit III C

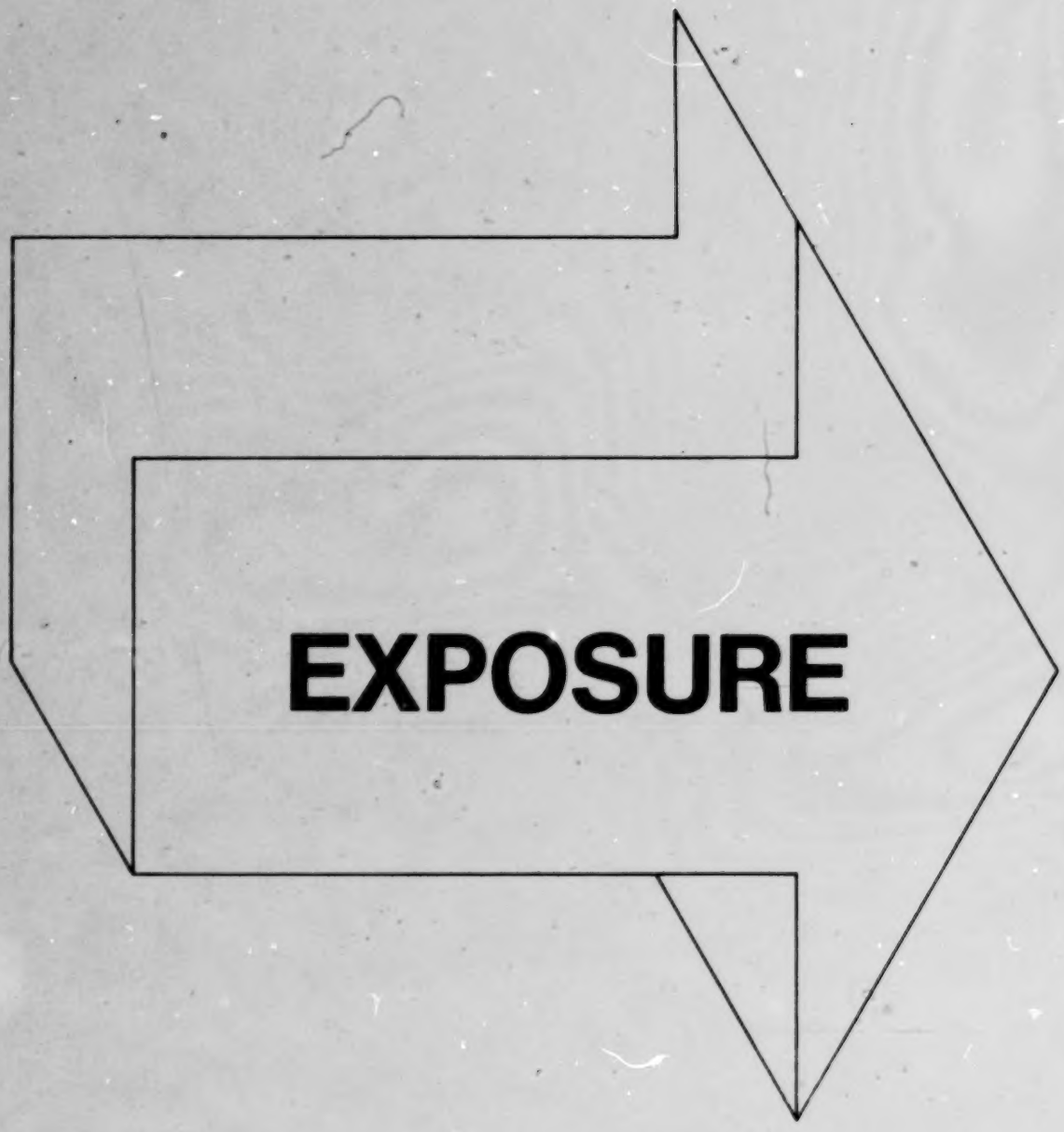
Unit III D

Unit III E

Unit III F

Unit III G

Unit III H


EXPOSURE

EXPOSURE

PART I, UNIT C
HOW TO SUCCEED
AND HOW TO
FAIL

PREASSESSMENT

Here are some questions that test for knowledge of the content of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the post-assessment at the end of the "Exposure Activities" section and measure what you've learned.

1. Why do small businesses fail?
2. What factors contribute to business success?
3. Certain competencies are required in managing a business. Discuss how an entrepreneur could become more competent.
4. Why is planning so important to business success?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level, you should be able to:

1. Identify the main reasons for failure in small businesses.
2. Develop a profile of the factors behind a successful business.
3. Discuss the various strategies an entrepreneur could use to become more competent.

SUBSTANTIVE INFORMATION

SUCCESSFUL BUSINESS PRACTICES

HOW MANY SMALL BUSINESSES ARE BEGUN EACH YEAR?

Every year, thousands of people go into business for themselves. Some, ..., have hopes of turning what they believe is a new idea into a major enterprise. Most, however, would be content to earn a decent living while enjoying the benefits of being their own boss. In either case, starting up and succeeding in a small business is far from an impossible dream. Of the more than 10 million non-farm businesses operating in the United States, 95% are considered small businesses by the Small Business Administration (SBA) and account for about 43% of the gross national product. (The Wall Street Journal, November 14, 1977, p. 1) Reprinted by permission of The Wall Street Journal, © Dow Jones & Company, Inc., 1977. All rights reserved.

We are a nation of small entrepreneurs. The Dun and Bradstreet Reference Book lists about three million businesses in this country. In 1976, well over half were worth less than $50,000. Only 5% were worth over $500,000. The number of businesses opening and closing each day fluctuates so much that the three million businesses listed by Dun and Bradstreet in 1976 are not the same ones in business today.

Why do we find businesses folding and new ones opening each day? What are some of the reasons for success and failure? What makes a successful business? What do they do right?

Successful entrepreneurs are considered by others as unique individuals capable of shaping their own destiny. They are goal-oriented individuals who know their limitations and stick to areas (products and services) which are familiar

to them and which are needed. Owners and operators of successful businesses recognize that the business practices they implement must be realistic. They are planners who know how to put both day-to-day items and the necessary policies down on paper. They know where to start and, through planning, when to forge ahead.

Businesses that survive are operated by entrepreneurs who develop long and short-term plans, and keep their records accurate. They establish positive relationships with good suppliers which can save money, time and energy. They stay up-to-date on the condition of their firms by watching the balance sheet and profit and loss statement, establish good credit with suppliers and local banks, have a line of credit which is used judiciously, and seek professional help when needed.

Successful entrepreneurs have gained rewards that are not possible had they been working for someone else. They have seen the opportunities for continued growth, and realize that the more effort that is put into the business, the more rewards will be gained. The successful entrepreneur also recognizes how important personal energy and vigor are to the firm's success. They enjoy "being their own boss" and making profits--being successful.

The following suggestions might prove helpful to you in running a successful business:

1. *Develop Plans for the Enterprise* -- No entrepreneur should jump into situations without planning first. Any business activity an entrepreneur does to operate the firm deserves to be planned. The adage, "*anything worth doing is worth doing well,*" is appropriate when describing the importance of planning.

2. *Keep Accurate Records* -- Keeping accurate and the "right" number of records is very important. The number of records is determined by the type of business you operate, tax requirements, and information needed to comply with federal, state, and local rules and regulations. Having these will also provide you with readily available data.

   Many entrepreneurs closely watch sales records, gross profit information, expenses, and net profit, but fail to keep on top of the balance sheet and profit and loss statement. You need to keep a careful watch over your liabilities, cash flow, and working capital.

3. *Make Objective Decisions* -- Do not permit yourself to make decisions hastily without considering all

the facts. Before making a decision, be sure you have considered the potential effect the decision will have on the operation of your enterprise.

4. *Keep Up-To-Date* -- Do not ever reach the point of believing you know all there is to know about running your business. Keep abreast of new developments in your field. Make use of trade associations.

5. *Obtain Professional Assistance* -- Being able to determine when you need professional assistance and knowing how to get it is almost as good as having the information. At some point in time, you probably will seek professional help from such individuals as bankers, accountants and attorneys. The Small Business Administration (SBA) office nearest you might also be able to help you or will recommend other agencies which can provide you with assistance.

REASON FOR BUSINESS FAILURES

WHAT ARE THE REASONS FOR FAILURE?

Why do businesses fail? What are the pitfalls? The reasons for failure can be grouped into these major areas:

1. Lack of experience
2. Lack of capital
3. Poor location
4. Too much inventory, particularly the wrong kind
5. Excessive purchase of permanent equipment

6. Poor credit-granting practices

7. Unwarranted personal expenses

8. Unplanned expansion

9. Faulty attitudes

(Adapted from The Pitfalls in Managing a Small Business, Dun & Bradstreet, 1977)

Other reasons for business failure include heavy expenses, poor collections, inadequate sales, incorrect inventory management and competitive weakness.

The main reason for failure mentioned above and in most of the literature on entrepreneurship is lack of experience by the person starting the business. Over 90% of failures are attributed to inept management. In The Wall Street Journal, November 29, 1977, Doyle Hayt describes how he thinks his business got into trouble. He notes, *"The problems were there for anyone to see, but I guess I didn't want to see them. I thought I'd be a hero and turn the place around."* Almost half the entrepreneurs whose businesses have failed should never have opened a business at all. They were incapable of managing their affairs.

No one opens a business with the intent of closing the first year, yet we see thousands of small businesses doing just that. Many small firms attempt to do more than their experience and capital allow. Although there is no way all pitfalls can be eliminated, once a limitation is recognized, steps can be taken to reduce it. For example, lack of capital can be partically resolved by using credit prudently.

DEVELOPING COMPETENT ENTREPRENEURS

HOW CAN ENTREPRENEURS BECOME COMPETENT?

What can be done to avoid the most common pitfall of employer inexperience? There might be a higher rate of success among enterpreneurs if, prior to opening a business, the entrepreneur could obtain on-the-job and management training. This would allow for assessment of qualifications of success as a business owner. Gaining experience beforehand is important if the entrepreneur does not have the expertise necessary to operate the business. Perhaps then, some would decide that becoming an entrepreneur was not the right career choice.

If you are just starting out and wish to be a successful entrepreneur, you must evaluate yourself, your strong points and your shortcomings and seek outside help, if needed. Inability to work with others or lack of capital to operate the business for an extended period of time are potential shortcomings to explore. Assessment One in the "Exposure Activities" section of this level is designed to determine if you "have what it takes" to run a business.

We often see an opportunity to open a business for ourselves and rush into it with enthusiasm and without the proper preparation. If you start your business knowing what to expect, are able to look at the reasons for failure and avoid the pitfalls, you will be able to predict your own chance of success more accurately. In order to make these kinds of decisions, you must understand the business world and all that is involved in "being your own boss."

EXPOSURE ACTIVITIES

As you have just read, being knowledgeable about the typical causes of business success and failure is very important to the business owner. Now that you have learned something about these concepts, try these activities.

ASSESSMENT ONE

Answer the following questions. Under each question, check the answer that says what you feel or comes closest to it. Be honest with yourself.

Are you a self-starter?

- ☐ I do things on my own. Nobody has to tell me to get going.
- ☐ If someone gets me started, I keep going.
- ☐ I don't put myself out until I have to.

How do you feel about other people?

- ☐ I like people. I can get along with just about anybody.
- ☐ I have plenty of friends--I don't need anybody else.
- ☐ Most people bother me.

Can you lead others?

- ☐ I can get most people to go along when I start something.
- ☐ I can give the orders if someone tells me what should be done.
- ☐ I let someone else get things moving. Then I go along if I feel like it.

Can you take responsibility?

- ☐ I like to take charge of things and see them through.
- ☐ I'll take over if I have to, but I'd rather let someone else be responsible.
- ☐ There are always some eager individuals around wanting to show how smart they are. I say let them.

How good of an organizer are you?

- ☐ I like to have a plan before I start. I'm usually the one to get things lined up when something needs to be done.
- ☐ I do all right unless things start going wrong. Then I walk away.
- ☐ Anytime I'd ever planned anything, something came along and ruined it. So I just take things as they come.

How good of a worker are you?

- ☐ I can keep going as long as I need to. I don't mind working hard for something I want.
- ☐ I'll work hard for a while, but when I've had enough, that's it.
- ☐ I can't see that hard work gets you anywhere.

Can you make decisions?

- ☐ I can make up my mind in a hurry if I have to. It usually turns out all right, too.
- ☐ I can if I have plenty of time. If I have to make up my mind fast, I always worry if I made the wrong decision.
- ☐ I don't like to be the one who has to decide things. My decision would probably be bad.

Can people trust what you say?

- ☐ Yes they can. I don't say things I don't mean.
- ☐ I try to be on the level most of the time, but sometimes I just say what's easiest.
- ☐ What's the problem if the other person doesn't know the difference?

Can you stick with it?

- ☐ If I make up my mind to do something, I don't let anything stop me.
- ☐ I usually finish what I start--if it doesn't go wrong.
- ☐ If things don't go right immediately, I forget it. Why waste the effort?

How good is your health?

- ☐ I never run down!
- ☐ I have enough energy for most things I want to do.
- ☐ I run out of energy sooner than most of my friends.

How did you do? Count the check marks you made.

How many checks are there beside the *first* answer to each question? _____

How many checks are there beside the *second* answer to each question? _____

How many checks are there beside the *third* answer to each question? _____

If most of your checks are beside the first answers, you probably "have what it takes" to run a business. If not, you're likely to have more trouble than you can handle by yourself. Better find a partner who is strong on the points you're weak on. If many checks are beside the third answer, not even a good partner will be able to support you. (Adapted from SBA Starting and Managing Series No. 1, 1973 p. 4-5.)

ASSESSMENT TWO

1. Survey your community and try to record the number of businesses that have failed in the last year and in the last five years. Try to determine how long they had been in business by checking with local banks, Chambers of Commerce, and real estate agents. For each business you identify, write a brief paragraph stating why you believe the company failed.
2. Write a list of reasons why you think businesses fail, putting them in priority order with your most prevalent reason first. Ask a local banker, accountant or real estate agent to evaluate your list. Have you included all the reasons? Were there any social or economic problems existing in your community which may have had an impact on business failures?
3. Survey your community and attempt to find ten small businesses that have been in business over five years. Try to analyze the reasons for their continued success. What are they doing right? You might interview some of the owners to learn why their firms have been successful.

POSTASSESSMENT

1. List the four most important reasons for small business failures.
2. Develop a profile of the factors behind a successful business.

3. Describe in detail how an entrepreneur could become more competent in managing the business.
4. Discuss the importance of planning in making a business succeed.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

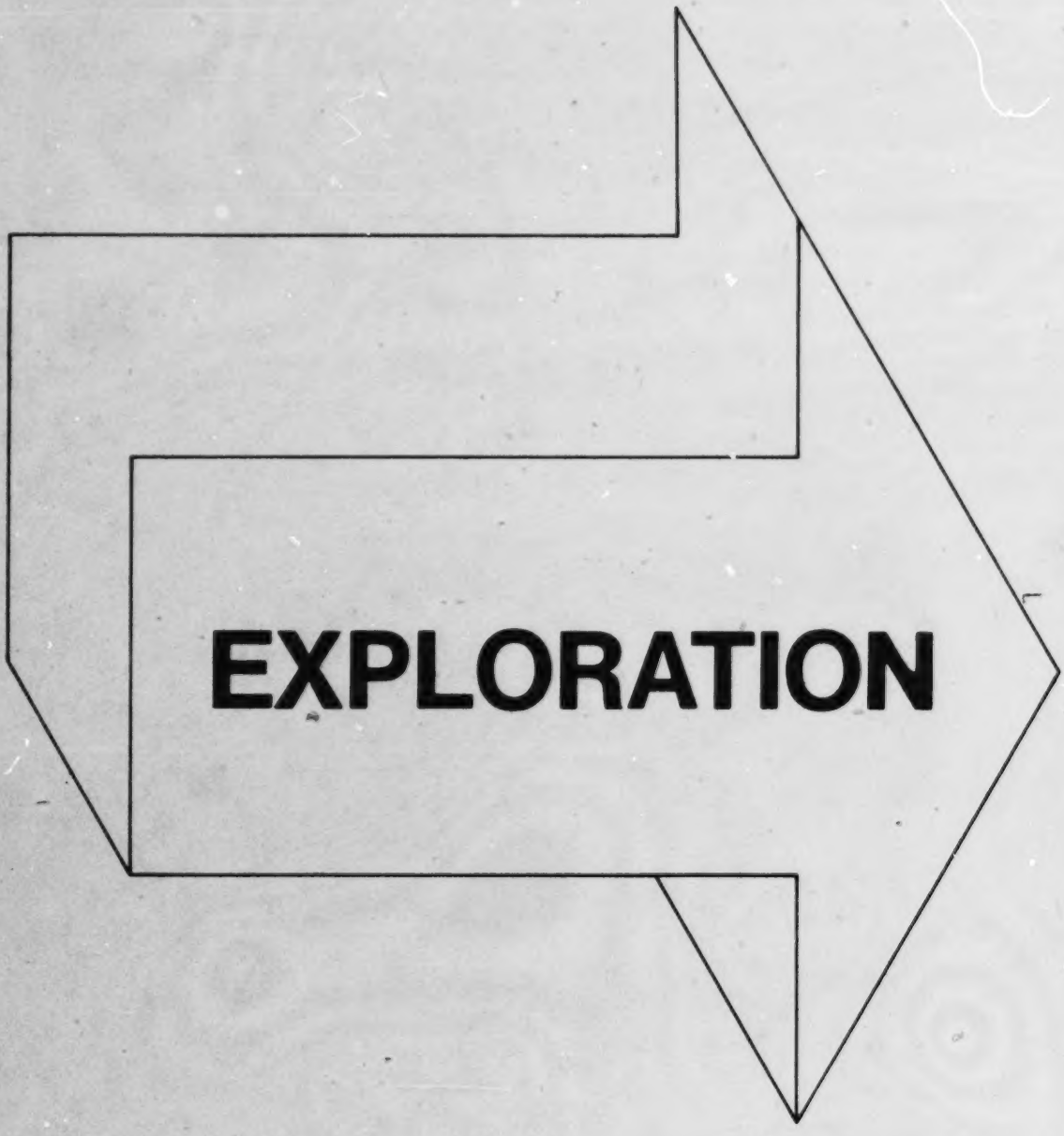
How well did you know the information needed to complete the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you need to review the information, you ought to do so before beginning new material.


EXPLORATION

EXPLORATION

PART I, UNIT C
HOW TO SUCCEED
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PREASSESSMENT

Here are some questions that test for knowledge of the content of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exploration Activities" section and measure what you've learned.

1. Do all types of businesses have the same rate of failure?
2. Do you feel that an entrepreneur is able to use both a knowledge of business functions and personal traits to make the business a success? Why?
3. You are planning to open a business. What kind of information regarding business failures in the field you have chosen would you want to know about?
4. What are the most common causes for business failure?
5. What does it take to have a successful business? Discuss in detail.

TEACHING/LEARNING OBJECTIVES

Upon completion of this level, you should be able to:

1. Identify some of the requirements for success in a small business.
2. Analyze the failure statistics for small businesses.
3. Explain some of the main reasons for failure in small businesses.
4. Discuss what an entrepreneur can do to avoid business pitfalls.

SUBSTANTIVE INFORMATION

SUCCESS STORIES

WHAT SIZE BUSINESSES ARE SUCCESSFUL?

As you look through the literature dealing with entrepreneurs and what makes them successful, you will find many definitions of success. Commonly, the successful entrepreneur is considered to be one who has started from scratch, whose business has been in operation for more than five years, has annual sales of over a million dollars, and provides the owner with better than $50,000 per year. While this interpretation of the successful entrepreneur might not be universally accepted, it is a popular one among people who analyze the small business community.

Any size business--whether it be as small as the one person auto-repair shop or as large as the manufacturing company that started out as someone's idea--can be successful. The following success stories might provide some insight into what it takes to be a successful entrepreneur.

Success Story Number One

WHO ARE THE SUCCESSFUL ENTREPRENEURS?

Chase Revel is the publisher of International Entrepreneurs, a magazine which offers tips to small businesses. At age twenty-one, he was a self-made millionaire. At age twenty-two, he was broke. Today at forty, he has worked his way back up the ladder to the success he knew at twenty-one.

How did he do it and what did he learn from his earlier failure? After losing his company in 1957 when the bottom fell out of the construction industry, he found himself broke and looking for new business ventures. He formed and operated eighteen different enterprises. People started coming to him for advice on how to run a business and for tips on which businesses to get into.

His magazine now has circulation of over thirty thousand. He has found the formula for success, and whether he sells his entrepreneurship magazine or continues to give tips to budding entrepreneurs, he is successful.

Success Story Number Two

When Paul Leopold was the vice-president in charge of administration for a Chicago housewares manufacturer, he discovered that many employees were taking advantage of the Xerox machines. Some copied term papers for their children or friends; other employees copied their favorite recipes; some even made blank copies for scratch paper! Meanwhile, the company's Xeroxing costs were going out of sight.

Leopold spent two years in a friend's basement developing his solution and another two years perfecting it. Today he is president of Manitou Systems, Inc., which produces and leases a foolproof device for keeping track of exactly who uses the office copier and how many copies they make. Manitou's first three customers were corporate giants: Levi Strauss, Zenith Radio,

and DuPont. Leopold saw a need for a product, researched it, and perfected it. He did not market it until he was satisfied that it was ready (Barnett, 1977).

Success Story Number Three

Don Hatting is an independent grocer in an Ohio town. Hatting has been running the business for three years and has doubled the original size of his J & J Super Market.

Hatting, 37, is one independent grocer who says he is not being squeezed out by large chains with fat advertising budgets, large warehouses, and low-price campaigns.

He has the sales figures and growth patterns to prove it....

He has boosted meat sales to 45% of his business and last year recorded $1.2 million in revenues.

He thinks he can do even better....

When he doubled the size of his store from 6,000 to 12,000 square feet, the addition gave him a larger meat counter, now stretching 60 feet across the store, a cutting room, and a storage locker for aging meat.

It's all part of a marketing strategy aimed at boosting meat sales from $12,000 to $20,000 a week.

"This is where our future lies," said Hatting, seated behind his metal desk, a folded copy of the Wall Street Journal at his side.

Charles Arrighi, president of Parkview Markets, Incorporated, Hatting's supplier says it's the major reason for Hatting's success.

Arrighi says Hatting's volume is unusual compared to most independent stores.

"He's created a reputation for himself," Arrighi said, "He's doing a 40% volume when the normal meat volume is about 25%....."

Hatting already has plans to open another store somewhere in Western Hills next summer. The size will be around 9000 square feet.

"You've got your large chain stores and your convenient markets and not much in between," he said. "I'm trying to be that one in the middle."

For that satisfaction, he works 10 to 12 hour days, seven days a week.

"This is it," he said, gesturing out his one-way window. "This store is my life, my work, my hobby. It has to be that way, or you can't be successful." (The Cincinnati Enquirer, July 31, 1977, p. E-9) Reprinted from The Cincinnati Enquirer, July 31, 1977.

Hatting is putting a lot of hard work into his success story.

Success Story Number Four

Are you a person with ideas? This is one idea that really caught on.

Walter F. Morrison was drawing a crowd at the Los Angeles County Fair at Pomona. Morrison, a Los Angeles city building inspector by occupation, was demonstrating a strange disc that could be hurled for distance and, depending on the spin, could be made to perform seemingly unending aerobatics.

The year was 1957. A Los Angeles area company already had caused a nationwide obsession with something called a Hula Hoop and a member of the firm--Wham-O Manufacturing Company--stood fascinated by the pitchman's demonstration.

Wham-O bought the rights to that flying saucer, dubbed it a Frisbee (the name is derived from a New England bakery whose pie tins were being spun around college campuses at the time), and Wham-O was on the map as one of the country's unique toy producers.

Morrison, 57, who now owns a hardware store in the Southland community of LaVerne, says he invented the disc in 1949, put it into limited production and called it a "Plutoplatter" because it was decorated with a solar system design.

Morrison estimates he has received more than $1 million in royalties from Frisbee sales. "Frisbee," he reflected, "That's a ridiculous name for anything."

But the flying saucer Morrison invented has been anything but ridiculous for Wham-O.

Wham-O, now based in a 200,000 square foot plant in San Gabriel, has the capacity to produce 100,000 Frisbees a day. Although it has diversified into toys (about 80% of its business) and sporting goods, the Frisbee clearly is its primary claim to fame.

> *James W. Kerrigan, 41, Wham-O's chief executive officer and general manager, is reticent about breaking out sales figures. However, he says that "25% to 50%" of Wham-O's annual sales are generated by the Frisbee. For 1976, the firm's sales level reached $19.4 million against $12.4 million in 1975. Net income totaled $932,000 against $578,000 a year earlier.* (The Los Angeles Times, August 28, 1977, VIII-3). Reprinted from The Los Angeles Times.

All these success stories seem to point in one direction--get advice, learn the business, and have a deep desire to succeed.

SOME STATISTICS REGARDING FAILURES

HOW DO TYPES OF BUSINESSES COMPARE IN FAILURE RATES?

What about businesses that do not make it? How many fail and why? Data from Dun and Bradstreet, Incorporated show that in 1976 the number of business failures dropped from the all-time record set in 1975. The number of construction business failures was 22% lower in 1976 than in 1975. On the average, there was an 18% decline in the failure of manufacturing firms. The number of wholesale enterprises that failed was about the same in 1976 as in 1975.

In their publication entitled The Business Failure Record Dun and Bradstreet, Incorporated compares the number of business failures to the number of concerns in operation in a given field. They state:

Just as airline or high traffic fatalities need to be related to the thousands of miles traveled, so the number of business failures must be related to the number of concerns in operation before meaningful comparisons can be made of the severity of casualities in one line of operation versus another. For example, among retailers, eating and drinking places had the largest number of concerns failing in 1976, but this was merely reflective of the huge number in operation in this line. When retail casualties are expressed as a rate per 10,000 in operation and ranked from highest to lowest, restaurants stand in the lower third of some 23 lines. At the top of the retail list in 1976 with the most severe failure rate were sporting goods stores. A year earlier, infants' and children's wear shops had headed the list. In the ranking of manufacturing rates, the furniture industry stood at the unfortunate top in both 1976 and 1975.
(The Business Failure Record, Dun & Bradstreet, 1977, p. 3)

Comparisons of Various Types of Businesses

WHAT TYPES OF BUSINESSES FAIL?

Exhibit 1 shows failure rates of retail firms in rank order from highest to lowest according to specific types of enterprises.

EXHIBIT 1

RETAIL LINES RANKED BY FAILURE RATES 1976

Line of Business	*Failure Rate per 10,000 Operating Concerns*
Sporting Goods	*68*
Men's Wear	*63*
Women's Ready-to-Wear	*60*
Furniture and Furnishings	*56*
Books and Stationery	*48*
Cameras and Photographic Supplies	*47*
Infant's and Children's Wear	*41*
Gifts	*37*
Department Stores	*36*
Dry Goods and General Merchandise	*34*
Toys and Hobby Crafts	*33*
Appliances, Radio and T.V.	*31*
Shoes	*31*
Lumber and Building Materials	*28*
Auto Parts and Accessories	*24*
Jewelry	*24*
Eating and Drinking Places	*22*
Drugs	*21*
Women's Accessories	*16*
Hardware	*15*
Groceries, Meats and Produce	*14*
Bakeries	*14*
Automobiles	*7*

(The Business Failure Record, Dun & Bradstreet, 1977, p.6)

The failure rates of manufacturing firms in rank order from highest to lowest according to specific types of enterprises are shown in Exhibit 2.

EXHIBIT 2

MANUFACTURING INDUSTRIES RANKED BY FAILURE RATES 1976

Line of Industry	*Failure Rate Per 10,000 Operating Concerns*
Furniture	*85*
Transportation Equipment	*77*
Textiles	*73*
Electrical Machinery	*72*
Apparel	*63*
Leather and Shoes	*52*
Printing and Publishing	*40*
Rubber and Fabricated Plastic Products	*38*
Lumber	*35*
Machinery	*33*
Metals, Primary and Fabricated	*31*
Food	*30*
Stone, Clay and Glass	*29*
Chemicals and Drugs	*29*
Paper	*25*

(The Business Failure Record, Dun & Bradstreet, 1977, p. 6)

Comparisons of Various Ages of Businesses

HOW DOES THE AGE OF A BUSINESS AFFECT THE FAILURE RATE?

Exhibit 3 shows the age of the 9,628 businesses that failed in 1976. You will notice that 54.8% of the businesses which were discontinued were in operation five years or less.

> *The proportion ran as high as 62.9 percent for retailers, as low as 46.3 percent for construction contractors. In contrast, wholesalers and manufacturers had the highest percentage of failures that had weathered over 10 years of operation.*
> (The Business Failure Record, Dun & Bradstreet, 1977, p. 10)

EXHIBIT 3

AGE OF FAILED BUSINESSES

Age in Years	Manu-facturing	Wholesale	Retail	Construction	Service	All Concerns
One Year or Less	1.2%	1.3%	2.0%	0.8%	1.4%	1.5%
Two	10.1	9.3	14.2	5.2	8.4	10.7
Three	13.3	12.8	18.3	10.6	14.1	15.0
Total Three Years or Less	24.6	23.4	34.5	16.6	23.9	27.2
Four	11.8	15.6	15.6	14.6	14.6	14.7
Five	11.8	10.3	12.8	15.1	13.2	12.9
Total Five Years or Less	48.2	49.3	62.9	46.3	51.7	54.8
Six	7.9	8.4	8.4	9.7	10.2	8.8
Seven	6.9	6.1	5.2	8.0	7.9	6.4
Eight	4.9	4.5	4.0	5.5	5.7	4.7
Nine	4.5	3.0	3.0	4.8	4.7	3.8
Ten	2.2	2.0	2.0	2.9	3.3	2.3
Total Six-Ten Years	26.4	24.0	22.6	30.9	31.8	26.0
Over Ten Years	25.4	26.7	14.5	22.8	16.5	19.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Number of Failures	1,360	1,028	4,139	1,770	1,331	9,628

(The Business Failure Record, Dun & Bradstreet, 1977, p. 10)

Comparisons of Regions and States

ARE THERE DIFFERENCES IN A FAILURE RATES AMONG STATES?

One of the most important tasks an entrepreneur needs to do is to select the "right" location for the firm. Potential entrepreneurs should take notice of business failure trends by states. Exhibit 4 compares failure trends by states for 1975 and 1976.

The information is provided according to regions. Within a given region there are significant differences among the states. For example, in the West South Central Region, Oklahoma had the largest number of business failures, 53.9%, as compared to Louisiana, which had only a 13.8% failure rate per ten thousand concerns.

EXHIBIT 4

*FAILURE TRENDS BY STATES**
Rate per 10,000 Listed Concerns-1975-76

Region & State	1975	1976
NEW ENGLAND		
Maine	34.9	17.2
New Hampshire	64.3	35.1
Vermont	16.4	24.3
Massachusetts	47.3	46.9
Connecticut	33.6	28.6
Rhode Island	24.8	2.6
Total New England	40.8	33.8
MIDDLE ATLANTIC		
New York	56.0	46.2
New Jersey	87.1	76.5
Pennsylvania	58.2	43.2
Total Middle Atlantic	62.8	51.5
SOUTH ATLANTIC		
Maryland	69.6	84.7
Delaware	45.2	12.1
District of Columbia	46.4	31.5
Virginia	71.3	37.8
West Virginia	17.8	10.2
North Carolina	19.2	12.4
South Carolina	4.0	10.8
Georgia	42.8	36.9
Florida	26.3	23.7
Total South Atlantic	35.9	29.7
EAST NORTH CENTRAL		
Ohio	28.0	37.8
Indiana	38.1	25.4
Illinois	50.4	41.4
Michigan	70.2	61.5
Wisconsin	21.3	34.3
Total E N Central	44.1	42.1
WEST NORTH CENTRAL		
Minnesota	50.7	55.6
Iowa	19.3	17.8
Missouri	15.4	21.6
North Dakota	6.9	26.2
South Dakota	15.8	15.2
Nebraska	30.4	23.4
Kansas	20.6	15.5
Total W N Central	25.6	27.4
EAST SOUTH CENTRAL		
Kentucky	38.1	24.6
Tennessee	40.8	46.3
Alabama	27.6	26.1
Mississippi	27.8	13.5
Total E S Central	34.2	30.1
WEST SOUTH CENTRAL		
Arkansas	19.5	21.0
Oklahoma	41.1	53.9
Louisiana	22.0	13.8
Texas	41.2	27.9
Total W S Central	35.8	28.5
MOUNTAIN		
Montana	29.0	17.1
Idaho	26.6	38.2
Wyoming	----	----
Colorado	25.7	17.9
New Mexico	27.7	13.6
Arizona	84.8	53.5
Utah	14.1	13.8
Nevada	19.6	40.0
Total Mountain	35.1	26.0
PACIFIC		
Washington	114.1	102.5
Oregon	77.9	82.0
California	73.0	53.8
Total Pacific	76.2	60.6

(The Business Failure Record, Dun & Bradstreet, 1977, p. 5)

*Data for Alaska and Hawaii not available prior to 1976; partial coverage in 1976.

This statistical data is only one factor to consider in deciding to start a business. Simply because a state has a high business failure rate does not mean you should not consider opening a new business there. The fact that sporting good stores most frequently fail should not discourage you from opening such a store. Other factors include obtaining a good banking connection, establishing credit, knowing the business selected, and obtaining current information from knowledgeable and professional sources. You will also need to obtain additional information, such as tax trends, failure rates per types of business, population trends, income trends, and information regarding the state or county's political status. Once you have this and other relevant data, then you can make a decision.

Successful entrepreneurs check all the resources available, including the above-mentioned statistical data before opening a business. Being aware of the pitfalls in starting and running a business will also help you avoid making mistakes.

REASONS FOR FAILURE

WHY DO BUSINESSES FAIL?

An article in The Wall Street Journal, November 29, 1977 discusses business failures:

> *Experts say that the smaller and newer a company is, the more likely it is to fail. More than half the firms that go out of business annually have been in existence for five years or less; the vast majority have annual sales of under $1 million.*

The reasons for this situation are simple: Small businesses typically lack the capital and management know-how to cope with adverse developments that all concerns face. However, a further search almost always reveals causes that stem from the nature of the people who go into business for themselves.

"An entrepreneur is an optimist by definition, and, overoptimism is what does companies in," asserts Kenneth Eaton, head of Associated Business Consultants, a Chicago management-consultant firm. He explains: "When things are going well, the average businessman assumes they will continue to go well. When a problem arises, he assumes it will go away quickly by itself. By the time he wakes up to the fact that he really has a problem, it's often too late to do anything about it."
(The Wall Street Journal, November 29, 1977, p. 1)
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Many people enter business each year unaware of the common pitfalls. Experts in entrepreneurship including Dunn and Bradstreet, Incorporated have grouped the reasons for failure into the following main pitfalls:

1. Lack of experience
2. Lack of capital
3. Poor location
4. Too much inventory, particularly the wrong kind
5. Excessive purchase of fixed assets
6. Poor credit-granting practices
7. Unwarranted personal expenses
8. Unplanned expansion
9. Faulty attitudes

(Adapted from Pitfalls in Managing a Small Business, 1977.) Below is a closer look at some of these pitfalls.

Lack of Experience

WHAT ABOUT LACK OF EXPERIENCE?

Lack of experience is a dominant factor. It would seem that it would be easy to overcome by gaining experience in an area of interest. Unfortunately, it is not always time spent in a business that prepares one for the job. It is important to learn the different aspects of that business, including management skills. A person may be capable of doing the job itself but may need management expertise to succeed as an entrepreneur.

It is not unusual for beginning entrepreneurs to get so involved with current operating problems that they forget to keep track of the trends on cash reserves, inventories, or accounts receivable; they do not have a yardstick which tells them when expenses are out of line. As a result, trouble is sometimes recognized only after it is too late for anything to be done. Doyle Hayt, owner-manager of Forms Corporation, which has emerged from bankruptcy to profitability, explains in the article entitled, "The Venturers: Doyle Hayt Survives Bankruptcy, Succeeds Second Time Around," how things went wrong in his firm:

I found an organization that was totally sick. Morale was low from the janitor on up. Orders that looked good on paper were losers in practice. There was no cost accounting system, so it was impossible to tell which parts of the business were profitable and which weren't. I was running around in circles trying to get a handle on things.

The article goes on to say that Mr. Hayt has....

taken other steps to restore his company to profitability. He has hired management-consulting firms to institute cost accounting and materials-control systems, has bought a couple of trucks to speed deliveries to customers, and has hired new financial and sales officers. (The Wall Street Journal, November 29, 1977, pp. 1-16) Reprinted by permission of The Wall Street Journal, © Dow Jones & Company, Inc., 1977. All rights reserved.

Lack of Money

WHAT ABOUT LACK OF MONEY?

If lack of experience is a major stumbling block for the starting entrepreneur, then the lack of money is a close second. Years ago you could start a business on a small amount of money and survive. Today a large amount of capital is often needed to get started and to keep going until profits take over.

Some bankers suggest that expenses for such things as rent, lights, heat, etc., be computed and that an additional 50% be added to offset the extra unforeseen expenses. Unexpected expenses are bound to develop and plans must be made to handle them.

The Wrong Location

WHAT ABOUT LOCATION?

The wrong location is often cited as a reason for failure. Because the small business person usually starts off on a limited budget he or she is looking for an inexpensive place of business. Rental costs are important, but if a business is not in the right location, failure is assured.

Inventory Mismanagement

WHAT ABOUT INVENTORY MISMANAGEMENT?

Inventory should be a major concern. Too much inventory and inventory which is not selling may limit payment of bills. Stocking up on an item made obsolete by a new development could cause an accumulation of excess items. This would necessitate your selling at a loss, which could prove disastrous.

Other Causes

WHAT ARE OTHER REASONS?

Too much capital can be invested in fixed assets. You may be doing a tremendous amount of business and decide to expand. Because you have invested (or borrowed) a great deal of money for assets such as heavy machinery or specialized equipment which cannot be easily liquidated, banks or lending agencies may consider you too far in debt to lend you the funds you need. Too much credit may also tie up money needed to expand. A certain number of your assets should be accessible, so they can be sold for ready cash.

Avoiding Pitfalls

HOW CAN A BEGINNING ENTREPRENEUR BE HELPED IN AVOIDING THE PITFALLS?

Considerable assistance is available from many sources, including volunteer groups, but not many new businesses utilize them. Much of this advice is free. However, Chase Revel of International Entrepreneurs magazine cautions that would-be entrepreneurs who are short on experience should seek out and pay a business consultant for advice. He warns that persons seeking advice should do so very carefully. Anyone can hang out a shingle claiming to be a consultant; so seek out someone who is already successful in the type of business you want to enter, but not someone against whom you will be competing. Revel is a strong believer in the slogan, *Investigate before you invest. "Business," he says, "is like moving in a big maze, but it's simple if you understand."* (The Los Angeles Times, July 17, 1977, Part IV, p. 1) Reprinted from The Los Angeles Times. Don't hesitate to ask for assistance from people who are qualified to give you the necessary information.

Starting a business is risky at best. It takes many skills to run it, and you cannot be expected to know everything. Your chances of making it succeed, however, will be better if you understand the potential problems. Knowing the pitfalls will help you minimize the problems.

SUCCESSFUL BUSINESS PRACTICES

WHAT DOES IT TAKE TO HAVE A SUCCESSFUL COMPANY?

What does it take to run a successful business? First, recognize your limitations. Just how much business can you handle with the resources you have? Your resources--people and money--must be able to generate a reasonable profit and establish and maintain goodwill with customers and employees. The prospective entrepreneur should take a close and realistic look at the product the business will sell and what profit is expected. If expenses are $1,000, then a profit of $1,000 needs to be made just to break even. After needed profits have been determined, other factors should be considered. These other factors include amount of sales required to attain the desired profit, credit policy toward customers, credit time given by suppliers, and what capital items such as transportation, fixtures, and equipment will be needed.

Second, keep accurate and up-to-date records. This includes records such as production schedules, sales quotas, cost targets, and returns on financial investments. Watch the balance sheet, make sure the assets and liabilities are in proper balance. Bank officials consulted for additional capital to expand inventory will take a hard look at the balance sheet to see how business has been conducted in the past. However, avoid unnecessary record-keeping. Have an accountant analyze the books regularly. Critical decisions are based on the business data available. Good records,

therefore, take out much of the guesswork and provide a sound basis for making good decisions, in addition to keeping you informed of the progress towards your business goals.

Third, do not drift into decisions. Analyze factors and make proper decisions based on factual data. Proper planning is essential to success. Investigate before you plunge into any decision. Do not make wrong decisions impulsively when you are offered get-rich-quick schemes. Most starting entrepreneurs are easy targets for unethical practices. Get all the information and then check out the "deal."

Fourth, exercise caution in the amount of money you take out for personal use. There must always be enough available to pay for established costs.

Finally, the effect of personal health on business success is important. A successful entrepreneur needs to be healthy. Avoid stress, practice good working habits, work reasonable hours, and maintain a balanced diet and exercise program.

Owning a business permits greater freedom than working for someone else, e.g., hours and amount of time worked. These freedoms should not be abused or the business will suffer.

EXPLORATION ACTIVITIES

Do you feel that you understand enough about factors in the success and failure of small businesses? The following activities will help you apply some of these concepts to "real" situations.

ASSESSMENT ONE

The Small Business Administration (SBA) has developed some questions to help you think about what is needed to become a successful entrepreneur. Answer each question. If the anwer is YES, you are on the right track. If you answer NO, you have some work to do.

ARE YOU READY TO BECOME AN ENTREPRENEUR?

WHAT ABOUT YOU?	Yes	No
Are you the kind of person who can get a business started and run it successfully?	___	___
Think about why you want to own your own business. Do you want it badly enough to work long hours without knowing how much money you'll end up with?	___	___
Does your family go along with your plan to start a business of your own?	___	___
Have you worked in a business similar to the one you want to start?	___	___

	Yes	No
Have you worked for someone else as a supervisor or manager?	___	___
Have you had any business training in school?	___	___

WHAT ABOUT THE MONEY?

Have you saved any money?	___	___
Do you know how much money you will need to get your business started?	___	___
Have you figured out whether you could make more money working for someone else?	___	___
Have you determined how much of your own money you can put into the business?	___	___
Do you know how much credit you can get from your suppliers--the people from whom you will buy?	___	___
Do you know where you can borrow the rest of the money needed to start your business?	___	___
Have you figured out your expected net income per year from the business? (Include your salary and profit on the money you put into the business.)	___	___
Can you live on less than this so that you can use some of it to help your business grow?	___	___
Have you talked to a banker about your plans?	___	___

	Yes	No
SELLING		
Have you decided on a selling plan?	___	___
Do you know how to get customers to buy?	___	___
Have you thought about the selling techniques that make customers want to buy from some salespersons while others turn them off?	___	___
YOUR EMPLOYEES		
If you need to hire someone to help you, do you know where to look?	___	___
Do you know what kind of person you need?	___	___
Do you know how much to pay?	___	___
Do you have a plan for training your employees?	___	___
Do you have a work plan for yourself and your employees?	___	___
CREDIT FOR YOUR CUSTOMERS		
Have you decided whether to let your customers buy on credit?	___	___
Do you know the good and bad points about joining a credit-card plan?	___	___
Can you tell a "deadbeat" from a good credit customer?	___	___

	Yes	No
Have you talked with other business owners in the area about what they think of the business?	___	___
Have you talked with the company's suppliers?	___	___
Have you talked to a lawyer about it?	___	___

ADVERTISING

Have you decided how you will advertise? (newspapers, posters, handbills, radio, mail)	___	___
Do you know where to get help with your ads?	___	___
Have you watched how other similar businesses get people to buy?	___	___

THE PRICES YOU CHARGE

Can you determine what you should charge for each product or service you sell?	___	___
Do you know what other businesses like yours charge?	___	___

BUYING

Do you know how to find out what your customers want?	___	___
Will your inventory records tell you when it is time and how much to order?	___	___
Will you buy most of your stock from a few suppliers rather than a little from many, so that those you buy from will want to help you succeed?	___	___

PROTECTING YOUR BUSINESS	Yes	No
Have you made plans for protecting your business against thefts of all kinds--shoplifting, robbery, burglary, stealing by employees?	___	___
Have you talked with an insurance agent about what kinds of insurance you need?	___	___

BUYING A BUSINESS FROM SOMEONE ELSE		
Have you made a list of what you like and don't like about buying a business someone else has started?	___	___
Are you sure you know the real reason why the owner wants to sell that business?	___	___
Have you compared the cost of buying the business with the cost of starting a new business?	___	___
Are the stock/equipment/fixtures up-to-date and in good condition?	___	___
Is the building in good condition?	___	___
Will the owner of the building transfer the lease to you?	___	___
Have you talked with other business people in the area to see what they think of the business?	___	___
Have you talked with the company's suppliers?	___	___
Have you talked with a lawyer about it?	___	___

YOUR RECORDS	Yes	No
Have you planned a system of records that will keep track of your income and expenses, what you owe other people, and what other people owe you?	___	___
Can you keep track of your inventory so that you will always have enough on hand for your customers, but not more than you can sell?	___	___
Have you figured out how to keep your payroll records and take care of tax reports and payments?	___	___
Do you know what financial statements you should prepare?	___	___
Do you know how to use these financial statements?	___	___
Do you know an accountant who will help you with your records and financial statements?	___	___
YOUR BUSINESS AND THE LAW		
Do you know what licenses and permits you need?	___	___
Do you know what business laws you have to obey?	___	___
EQUIPMENT AND SUPPLIES		
What equipment and supplies will you need and how much will they cost?	___	___
Can you save some money by buying secondhand equipment?	___	___

YOUR MERCHANDISE/SERVICES	Yes	No
Have you decided what products/services you will sell?	___	___
Do you know how much or how many of each product you will need to buy in order to open your business?	___	___
Have you found suppliers who will sell you what you need at a good price?	___	___
Do you know a lawyer to whom you can go for advice and help with legal papers?	___	___
Have you compared the prices and credit terms of different suppliers?	___	___

HOW ABOUT A PARTNER?		
If you need a partner who has money or know-how you need, do you know someone who will fit---someone with whom you can get along?	___	___
Do you know the good and bad points about going it alone, having a partner, and incorporating your business?	___	___
Have you talked to a lawyer about it?	___	___

WHAT ABOUT YOUR CUSTOMERS?		
Do most businesses in your community seem to be doing well?	___	___
Have you tried to find out how well businesses similar to the one you want to open are doing in your community and in the rest of the country.	___	___

	Yes	No
Do you know what kind of people will want to buy what you plan to sell?	___	___
Do such people live in the area where you want to open your business?	___	___
Do you feel they need a business like yours?	___	___
If not, have you thought about opening a different kind of business or going to another neighborhood?	___	___

YOUR BUILDING

Have you found a good location for your business?	___	___
Will you have enough room when your business "gets going"?	___	___
Can you fix the building the way you want to without spending too much money?	___	___
Can potential customers get to it easily from parking spaces, bus stops, or homes?	___	___
Have you had a lawyer check the lease and zoning?	___	___

(Adapted from SBA Small Marketer's Aid No. 71, pp. 1-4)

ASSESSMENT TWO

1. Why do you believe the number of business failures caused by neglect and fraud is so low compared to the number of business failures caused by lack of experience?
2. Contact a local small business owner and ask the owner to explain why the business has been successful. What does the owner think is being done correctly? Did the owner make any mistakes in the beginning?

3. Develop your personal plan for achieving business success and avoid typical pitfalls. Include plans for obtaining any needed administrative assistance.

POSTASSESSMENT

1. Do all types of businesses have the same rate of failures?
2. "For a business to be successful, the entrepreneur must be able to 'mix and match' all the business functions and the entrepreneur's own personal characteristics to make the 'right' combinations." Discuss this quote. Do you believe what it says? Why?
3. You are planning to open a business. What kind of information regarding business failures in the field you have chosen would you want to know about?
4. Select four causes for business failures and discuss these in detail.
5. What does it take to have a successful business? Discuss in detail.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

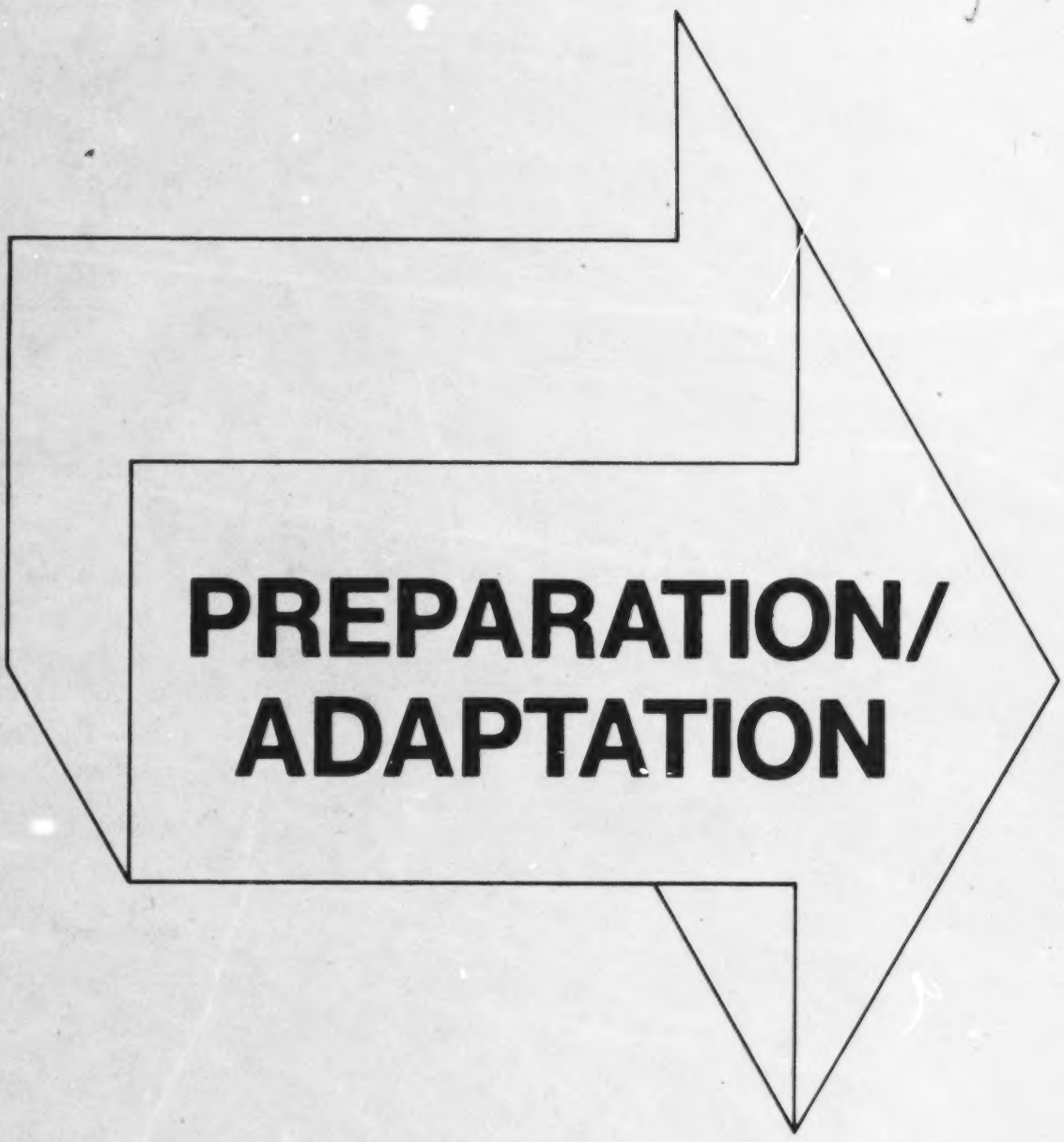
How well did you know the information needed to complete the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you need to review the information, you ought to do so before beginning new material.


PREPARATION/
ADAPTATION

PREPARATION/
ADAPTATION

PART I, UNIT C
HOW TO SUCCEED
AND HOW TO
FAIL

PREASSESSMENT

Here are some questions that test for knowledge of the content of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Preparation/Adaptation Activities" section and measure what you've learned.

1. How and where might an entrepreneur obtain additional training?
2. Do you believe that entrepreneurs have more education than the general public? Why?
3. What financial institutions provide small loans? Which would you prefer to deal with and why?
4. What is the Small Business Administration (SBA) and what does it offer?
5. What information would you want to get before opening your business?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level, you should be able to:

1. Discuss procedures that can be followed when opening a business that can minimize chances for failure and increase chances for success.
2. State the areas in which outside assistance may be useful to the entrepreneur.
3. State some of the ways in which specific assistance or additional training may be obtained.

SUBSTANTIVE INFORMATION

UNDERSTANDING PITFALLS

WHAT ARE SOME OF THE PITFALLS?

Before you start out as an entrepreneur, you should be aware of the pitfalls in the business world. The ultimately successful company is able to avoid these pitfalls. Unfortunately many concerns do not survive.

Poor Management

Slow sales, heavy operating expenses, inventory problems, and poor location are some reasons for business failures. A closer review of these pitfalls reveals that poor management is the common, underlying factor. More than 90% of business failures are due to managerial incompetence and inexperience.

Lack of Experience

Lack of experience in supervising or performing management functions is a serious problem. The ultimate failure of a business is often directly related to the owner's lack of experience in accounting, pruchasing, pricing, advertising, budgeting, and other functions of management. The owner should obtain ample training prior to opening a business.

Poor Records

Unless a business is extremely small, the entrepreneur cannot keep track of all the business records mentally. Misleading and poor accounting records can lead to serious

problems. Without proper accounting records and procedures, costly errors are bound to develop. The business owner must depend on a reliable recordkeeping system that will provide up-to-date information with which sound decisions can be made.

A good accounting system should provide you with information regarding operating costs, fixed and variable cost data, inventory, profit or loss, and credit and collection totals. An accurate accounting system will enable you to compare current data with that of prior years.

Poor Financial Condition

The importance of maintaining a healthy financial position is often overlooked by beginning entrepreneurs. Many business owners allow capital to get too low. They forget that cash flow is very important. Often, too much capital is tied up in fixed assets.

Lack of Planning

The importance of planning is also overlooked by entrepreneurs. Most businesses that do not establish meaningful plans are unsuccessful. Planning allows the entrepreneur to take advantage of opportunities that arise and to minimize business problems.

Inability to Delegate Responsibility

Most small business owners have more to do than their time allows. Entrepreneurs need to learn how to use their time wisely. Valuable time is often spent doing insignificant tasks and important jobs are left undone. You will need to establish schedules for yourself and delegate some of your routine responsibilities to employees. That way, you will have more free time to get the important jobs done.

Lack of a Marketing Strategy

The first concern of every business is to sell. The best products, equipment, facilities, and personnel will not make a business successful unless they stimulate sales. You will need to develop a complete, organized marketing strategy which includes not only personal selling, but also appropriate pricing, advertising, and sales promotion programs. Distribution tactics are also necessary.

LEVEL OF EDUCATION NEEDED

ARE ENTREPRENEURS WELL-EDUCATED PEOPLE?

Many of the outstanding entrepreneurs of this century have had little formal schooling. Many of the better known books on entrepreneurship and small business management refer to the low educational level of the entrepreneur.

It is difficult to determine how much education is needed to become a successful entrepreneur. The sufficient amount of training will depend on the type of business. Some

authorities suggest a minimum of three years experience in a given line of business, with some experience in performing management functions and decision-making.

One researcher conducted a study in the area of education of the entrepreneur. Although there were many problems with the data, the researcher concluded that (1) entrepreneurs have much more formal education than the general population and the gap seems to be increasing, and (2) even though entrepreneurs have more education than commonly believed, education apparently does not contribute directly to business success.

This study indicated that, as entrepreneurs, business school graduates were not as successful as other college majors, and college graduates were not as successful as nongraduates. The researcher also concluded that more research and larger samplings were needed.

RESOURCES AVAILABLE FOR ASSISTANCE

DO BEGINNING ENTREPRENEURS NORMALLY NEED HELP?

The vast amount of help that is available to prospective entrepreneurs should not be ignored. It is often difficult to adjust from having limited responsibility (i.e., working for someone else) to taking on full responsibility for operating your own business.

Most beginning entrepreneurs do not really understand such things as sales, productivity, costs, and margins. In addition, they are not familiar with all the government rules and regulations with which they must comply.

Numerous specialized resources exist to help you with any problem your firm may encounter. The fee is usually nominal. These resources range from providing advice on planning a new location to preparing your tax reports and include the following:

Nongovernmental Assistance

WHAT NONGOVERNMENTAL RESOURCES ARE AVAILABLE FOR ASSISTANCE?

Accountants

Accountants can help you in making the best financial decisions. They can help you set up a record keeping system, suggest the type of office and bookkeeping equipment needed, and prepare government reports.

Bankers

Bankers are usually more informed about local business conditions than any other group. They can provide you with information regarding loans and a line of credit. Banks will let you know about their services, such as paying your bills and computer assistance for inventory control. Normally a banker can recommend other sources for the managerial assistance you might need.

Attorneys

Your business will probably need legal advice. A competent attorney can be located by contacting the local bar association. Your banker, accountant, or colleagues can also probably recommend and attorney.

probably recommend an attorney.

Insurance Agents

Insurance agents are willing to help you analyze your insurance needs and develop a comprehensive program for your firm. You need to select a reliable agent with specialized training in business insurance. Before making a decision, be sure to compare prices, coverage, and services with several insurance agents.

Business Consultants

Most communities have business consultant firms which are useful in analyzing and providing recommendations for solving your company's problems. This type of service can be very expensive. Be sure you and the business consultant have a complete understanding of the services to be provided and their exact costs.

Trade Associations

Trade associations can provide you with specific information about your field. Many trade associations hold regular meetings, issue bulletins and newsletters, conduct studies, and keep members posted on legal matters.

Membership dues vary according to the size of the organization and the services provided. Considering the services you can get, it is well worth the expense.

Venture Capitalists

Venture capitalists are people who invest in businesses. They are located in all states throughout the country. Examples of venture capital groups which you might contact include:

California:

Beckman Instruments, Incorporated
2500 Harbor Boulevard
Fullerton, California 92634
Bob B. Brown, (714) 871-4848

Though this firm is primarily in the electronics manufacturing industry, it frequently becomes involved in all phases of financing the growth segments of the electronics industry.

Minimum investment = $100,000

Preferred investment = $250,000 - $500,000

Florida:

Burger King, MESBIC Incorporated
P.O. Box 338, Kendall Branch
Miami, Florida 33156
Zane Leshner, (305) 274-7656

This group is interested primarily in start-ups in franchise foods.

Minimum investment = under $100,000

Preferred investment = no preferences

Affiliates: The Burger King Corporation

Ohio:

Eaton Venture Capital Corporation
100 Erie View Plaza
Cleveland, Ohio 44114
Richard Stoddart

This affiliate is interested in all kinds of nationwide financing. No industry preferences.

Minimum investment = $100,000

Preferred investment = varies with clients

Affiliates: The Eaton Corporation

Educational and Business Groups

Any ambitious person can begin a self-study program and keep up-to-date in their field by reading books and periodicals on economics, organization, management, marketing, personnel, and finance. In addition, training in entrepreneurial tasks is available throughout the country at colleges, universities, technical schools, and local adult education programs. Most cities have classes in business, marketing, etc. offered through the local high school, community colleges, or private schools. Continuing education classes at local universities normally include courses dealing with business. This training is offered on a full-time basis or part-time during evenings or on weekends.

For information on ratios, credit, and management practices you should contact a branch office of Dun and Bradstreet, Incorporated. The National Cash Register Company has many helpful publications on various topics geared primarily to retailers.

The Bank of America, headquartered in San Francisco has published a series entitled the Small Business Reporter.

Government Agencies

Small Business Administration (SBA)

WHAT GOVERNMENT AGENCIES CAN ASSIST?

This agency was created by the Federal Government solely to *"aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise."* The SBA provides four primary services: procurement services, management assistance, venture capital assistance, and financial assistance. The SBA can provide vast amounts of literature on entrepreneurship. The type of publications that are available from the SBA and a list of SBA offices is included in the PACE Instructor's Guide. The SBA service should be high on your list when you are thinking of starting a business of your own. The SBA also sponsors workshops for interested persons lasting from a half-day to a full week, often at no charge.

Other Government Agencies

The Department of Commerce publishes statistics on business; the Internal Revenue Service distributes important tax information; the Department of Labor can provide information on labor trends, minimum wage, and wage and salary statistics. You will also need to become familiar with federal government legislation

such as the Occupational Safety and Health Act (OSHA), and the Equal Employment Opportunity Act (EEOA), and other agencies such as the Securities and Exchange Commission (SEC). It is important that you get information on the impact of these laws and agencies on your firm.

Each state also has its own set of agencies which can provide unique information or assistance to small business-persons.

Additional Sources

WHAT OTHER SOURCES PROVIDE HELP?

You need to keep up-to-date in all aspects of your venture both before and after starting the business. Some of your best sources are:

- *Your own customers*
- *Merchandise and equipment suppliers with whom you deal*
- *Trade associations and trade papers*
- *Commercial and industrial banks*
- *Chamber or Commerce*
- *Credit bureaus*
- *Business sections of libraries*
- *Minority economic and business development centers*

(SBA, Starting and Managing Series, No. 1)

There is a wealth of information on entrepreneurship. Before starting out on any venture, your first step is to start analyzing the available data. As you increase your knowledge, you increase your chances for making the right decisions--decisions that will hopefully result in success.

PREPARATION/ADAPTATION ACTIVITIES

Are you able to apply these suggestions to your business aspirations? Are you now knowledgeable about maximizing your chances for success? The following activities should help you check your knowledge of success and failure in business.

ASSESSMENT ONE

1. Look in your local telephone directory under "United States Government" and locate the closest SBA office. If that office is nearby, make a telephone call or preferably visit the SBA. Ask the officials to explain the available local programs designed for beginning entrepreneurs. Do they have a program for successful business persons who want to keep up-to-date?
2. Contact the educational institutions in your area and make a list of the entrepreneurship courses and the business courses being offered.
3. Write a venture capitalist group asking for information on how persons given financial assistance are selected. For an address, check your telephone directory under "venture capitalists." Should they not be listed there, go to your public library and check a telephone directory of a larger city. If you are still unable to locate a venture capitalist group, use those listed in this PACE unit.

POSTASSESSMENT

1. How and where can an entrepreneur obtain additional training?
2. "A common stereotyped belief about entrepreneurs is that they are relatively more educated than the general public." Do you agree with this statement? Why?
3. List the financial institutions that provide small loans. Which type of institution would you prefer to deal with? Why?
4. What is the SBA? What services does it offer?
5. Make a list of the steps you would take to get the necessary information before opening a business. Whom would you contact? Would you be interested in getting a business degree or more specific experience in your area of interest?

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to complete the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you need to review the information, you ought to do so before beginning new material.

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FILMS

EXPOSURE LEVEL:

"Three Times Three" (13½ min., sd., color, 16 mm). Available for purchase or rental from Sales Branch, National Audiovisual Center--General Services Administration, Washington, D.C. 20406. Phone (301) 763-1854.

Through dramatization and narration, the film illustrates nine important keys to small business success. These "keys" include: personal ability; use of outside assistance and information; understanding insurance, regulations, and taxes; business opportunity; knowing sources of capital; maintenance and use of business records; understanding financial factors; effective organization and planning; using good management techniques.

RESEARCH AND DEVELOPMENT SERIES NO. 194 A-3

PACE

A Program for Acquiring Competence in Entrepreneurship

Instructor's Guide

Part I

Getting Ready To Become An Entrepreneur

Unit C

How To Succeed And How To Fail

THE NATIONAL CENTER FOR RESEARCH IN VOCATIONAL EDUCATION
THE OHIO STATE UNIVERSITY
1960 KENNY ROAD • COLUMBUS, OHIO 43210

USING THE INSTRUCTOR'S GUIDE

The Instructor's Guide contains the following:

- Teaching/Learning Objectives (identical to the Teaching/Learning Objectives found in the PACE unit)
- Teaching/Learning Delivery Suggestions
- Pre/postassessment Suggested Responses

This information is geared towards the three levels of learning, and is designed for use as a supplemental teaching aid. Additional instructions for using PACE, sources of information, and an annotated glossary can be found in the PACE Resource Guide.

PRE/POSTASSESSMENT
SUGGESTED RESPONSES

EXPOSURE

1. Four of the most important reasons for small business failures are (a) lack of experience by the person starting the business, (b) lack of money, (c) wrong location, and (d) improper inventory management.

2. The following factors should be included in the profile: (a) the business is well planned when its owner-manager has set detailed long- and short-term plans, (b) the owner-manager is goal oriented and sets realistic goals, and (c) credit is managed well.

3. An entrepreneur can become more competent: (a) through on-the-job management training in a firm similar to the planned venture, (b) by identifying pitfalls and taking steps to avoid them, (c) by enhancing his or her ability to work with others, and (d) by learning as much as possible about the business before opening day.

4. Planning helps entrepreneurs make effective decisions, set realistic goals, and implement procedures to reach the goals. A successful business venture is no accident. Without planning, it would be difficult to recognize and complete activities essential to the firm's operation.

EXPLORATION

1. Some types of businesses have higher failure rates than others.

2. Some believe management is an art, while others believe it is a science. Responses will vary accordingly.

3. Respondents should want to know (1) why businesses failed, and (2) how old unsuccessful businesses were when they failed.

4. Responses should be discussions of four of the following: inexperience, lack of capital, poor location, too much inventory, excessive investment in fixed assets, poor credit granting practices, unwarranted personal expenses, unplanned expansion, and faulty attitudes. Discussions could include ways to recognize and avoid these pitfalls.

5. Successful business ventures result when limitations and strengths are identified and reflected in the business's plan of operation.

PREPARATION/ADAPTATION

1. An entrepreneur can obtain additional training through a self-study program at colleges, universities, technical schools, and local adult education programs; or by working in a business similar to the planned venture.

2. Study noted in text suggests entrepreneurs have more formal education than the general public. However, since some respondents will assert that management is a science while others will state that it is an art, responses will vary accordingly.

3. Financial institutions that provide loans include banks, savings and loan associations, and venture capitalists.

4. The Small Business Administration is a federal government agency that protects and promotes small business. It provides four primary services: procurement, management assistance, venture capital assistance, and financial assistance.

5. List should reflect careful planning and an awareness of possible pitfalls.

LEVELS OF LEARNING	TEACHING/LEARNING OBJECTIVES Upon completion of this level of instruction you should be able to:	TEACHING/LEARNING DELIVERY SUGGESTIONS A variety of different teaching/learning methodologies have been used. To help you organize your work and plan the use of this level these suggestions are made:
Exposure	1. Identify the main reasons for failures in small businesses. 2. Develop a profile of the factors behind a successful business. 3. Discuss the various strategies an entrepreneur could use to become more competent.	Community resource persons such as the Chamber of Commerce, the Downtown Development Association, business owners, bankers, and real estate agents should be contacted to obtain information on business successes and failures in your community.
Exploration	1. Identify some of the requirements for success in a small business. 2. Analyze the failure statistics for small businesses. 3. Discuss what an entrepreneur can do to avoid business pitfalls. 4. Explain some of the main reasons for failures in small businesses.	If at all possible, locate a person in your community who owned a business that failed. Interview the person, and try to discover the factors that he or she believes caused the business failure.
Preparation/Adaptation	1. Discuss procedures that can be followed when opening a business that can minimize chances for failure and increase chances for success. 2. State the areas in which outside assistance may be useful to the entrepreneur. 3. State some of the ways in which specific assistance or additional training may be secured.	1. Invite representatives from one or more of the following organizations to speak on the services they provide to small businesses: (a) Small Business Administration (SBA) (b) Office of Minority Business Enterprise (OMBE), Department of Commerce (c) Occupational Safety and Health Administration (OSHA) (d) Securities Exchange Commission (SEC) (e) Equal Employment Opportunity Commission (EEOC) 2. Make arrangements for a speaker from a financial institution such as a bank or savings and loan company to meet with the group to discuss how to start a loan application.

The PACE series consists of these parts and units.

PART I: GETTING READY TO BECOME AN ENTREPRENEUR

- Unit A: Nature of Small Business
- Unit B: Are You an Entrepreneur?
- Unit C: How to Succeed and How to Fail

PART II: BECOMING AN ENTREPRENEUR

- Unit A: Developing the Business Plan
- Unit B: Where to Locate the Business
- Unit C: Legal Issues and Small Business
- Unit D: Government Regulations and Small Business
- Unit E: Choosing the Type of Ownership
- Unit F: How to Finance the Business
- Unit G: Resources for Managerial Assistance

PART III: BEING AN ENTREPRENEUR

- Unit A: Managing the Business
- Unit B: Financial Management
- Unit C: Keeping the Business Records
- Unit D: Marketing Management
- Unit E: Successful Selling
- Unit F: Managing Human Resources
- Unit G: Community Relations
- Unit H: Business Protection

RESOURCE GUIDE